



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

CONGRESSIONAL AFFAIRS

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December 16, 1986

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer -

Department of Agriculture
Department of Commerce
Department of Defense
Department of Education
Department of Energy
Department of Health and Human Services
Department of Housing and Urban Development
Department of the Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
Department of the Treasury
Council of Economic Advisers
Office of Science and Technology Policy
Agency for International Development
Central Intelligence Agency
Environmental Protection Agency
General Services Administration
National Aeronautics and Space Administration
National Science Foundation
Small Business Administration
U.S. Information Agency
Veterans Administration

SUBJECT: Office of Personnel Management draft bill "To amend title 5, United States Code, to establish a simplified management system for Federal employees, and for other purposes."

NOTE: Except for Section 4, which is new, this draft bill is identical to one cleared by OMB last year, which your agency reviewed. Accordingly, your concurrence will be assumed unless we hear from you to the contrary by the deadline below.

The Office of Management and Budget requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

A response to this request for your views is needed no later than Monday, December 29, 1986.

Questions should be referred to Gail Webber (395-6156) or to Hilda Schreiber (395-7362), the legislative analyst in this office.

Naomi R. Sweeney

Naomi R. Sweeney for
Assistant Director for
Legislative Reference

Enclosures



Office of the Director

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, D.C. 20415

Honorable George Bush
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

The Office of Personnel Management submits herewith a legislative proposal, "To amend title 5, United States Code, to establish a simplified management system for Federal employees, and for other purposes." This proposal would implement the President's decision to expand the personnel system improvements successfully demonstrated at the two Navy laboratories in China Lake and San Diego, California, in a controlled, measured, and budget-neutral manner. We request that the proposal be referred to the appropriate committee for consideration.

The shortcomings of the current General Schedule (GS) are clear. This system, which had its origins more than 60 years ago, stresses administrative procedures at the expense of management flexibility and opportunities to reward employee effort. As a result, four broad areas of dissatisfaction with the current GS system have emerged:

- The hiring system is excessively regulated and time-consuming.
- The compensation system is rigid and often inadequate.
- The performance appraisal system, despite major improvements, still does not sufficiently tie pay to employee performance.
- The job classification system on which it is all based is cumbersome and excessively involved with paperwork.

The Civil Service Reform Act of 1978 provided the legal authority for personnel research programs and demonstration projects to allow for controlled, measured evaluation of new approaches to personnel management. Under this authority, the Office of Personnel Management (OPM) approved a Department of the Navy proposal to experiment with a simplified personnel system at the two laboratories in California.

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The demonstration project personnel system simplifies the cumbersome 18-grade GS system by substituting four to six broad pay bands to provide managerial flexibility. OPM, other observers, the managers who operate the system, and the employees who are under the system all believe that its flexibility has resulted in several distinct advantages:

- The system is market-sensitive, allowing competition for quality personnel in hard-to-fill occupations.
- The system is performance-oriented, allowing the linkage of pay to performance to an extent not possible under the current GS system.
- The system is administratively simple, greatly reducing the effort and costs associated with Federal personnel management.

This simplified system has now been in operation for six years and has involved thousands of employees in a wide variety of occupations. Because of its success, the system has many supporters. For example, the President's Blue Ribbon Commission on Defense Management, headed by David Packard, recommended extension of this "successful system" to acquisition personnel in DOD. Several bills have been introduced in the Congress which would establish personnel systems, inspired to some extent by the Navy project, for other segments of the work force.

While varying in approach, these bills suffer from a common deficiency--they fail to recognize that the Federal Government is a single employer. Consequently, they propose piecemeal solutions to problems that are Governmentwide in scope. By concentrating on problems which have arisen in certain occupational areas, they ignore the disturbances that fragmented approaches to these problems would create. A proliferation of alternative personnel systems could very well lead to inter-agency competition for valuable employees, declining morale and productivity for employees left out of the new systems, and an attendant loss of Federal personnel management integrity and control. On the other hand, there is an equal danger from failure to take action. In the face of a deteriorating situation, further "studies" should not be allowed to delay implementation of an already tested system that has been shown to work. Since authority for personnel research programs and demonstration projects is already established in law, we have sufficient flexibility now to test and evaluate any further innovations in personnel management. We believe that the "Simplified

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Management System" set forth in the enclosed legislative proposal would allow for a careful, budget-neutral expansion of a demonstrated, successful pay-for-performance system.

This proposal would provide the legal authority for a Governmentwide extension of the Simplified Management System. Its chief features would be:

- Pay Banding. The system would consolidate existing grade levels into appropriate pay bands that would generally encompass the pay ranges for two or more grade levels of the General Schedule.
- Simplified Classification. Within the pay bands, the systems would eliminate much of the administrative burden now involved in classification.
- Pay-for-Performance. Progressions within the pay bands would be based more on performance than seniority, with greater rewards for better performers and with the ability to withhold pay raises for those whose performance is less than fully successful.
- Market-Sensitivity. The new system would allow the hiring of new employees within the pay bands at rates more reflective of market conditions, allowing for adequate recruitment of employees in critical, hard-to-fill occupations.

The proposal would leave the current General Schedule in place, permitting its gradual replacement by the new system in careful stages. Agencies would be authorized to implement the new system for the whole agency, or for any component of or occupation in the agency, but only after careful evaluation of whether the agency was ready and able to implement the system properly. Agency use of the system would be carefully monitored to ensure that the system's objectives are met. Agency use of the Simplified Management System could be modified or terminated, and the agency returned to the General Schedule if budget-neutrality is not observed, or the system's objectives are otherwise not met.

The proposal would also repeal as unnecessary a provision of the National Bureau of Standards Authorization Act for Fiscal Year 1987 under which a new personnel system somewhat similar to the Simplified Management System would have been established as a demonstration project in the National Bureau of Standards. This demonstration project would not

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have been implemented in a cost-neutral manner, and would have been inconsistent with the Simplified Management System in a number of other ways. In order to avoid fragmentation of the Government's personnel system, our proposal would accordingly replace the National Bureau of Standards authority with the Governmentwide, cost-neutral Simplified Management System.

Because of the incremental nature of the proposed expansion of the Simplified Management System, we recognize that some immediate relief is needed for those agencies which remain under the General Schedule for the time being, and which experience difficulties in recruiting or retaining employees in hard-to-fill occupations. Therefore, our proposal provides for greater flexibilities in the special rate authority under the General Schedule, and provides a new authority for recruitment and retention bonuses.

The Simplified Management System will provide an epochal reform of the Civil Service which will restore the ability of Federal managers to manage, and make it possible for motivated employees to perform to their fullest potential. Under this system the best Federal workers will get paid better and know what's expected of them, while managers will no longer be passive participants in the personnel process. The Administration believes that enactment of this proposal would greatly improve Federal personnel management.

The Office of Management and Budget advises that enactment of this proposal would be in accord with the program of the President.

A similar letter is being sent to the Speaker of the House of Representatives.

Sincerely,

Constance Horner
Director

Enclosures